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# On the November FOMC: What, Me Political?

Thursday, November 7, 2024

**Donald Luskin**

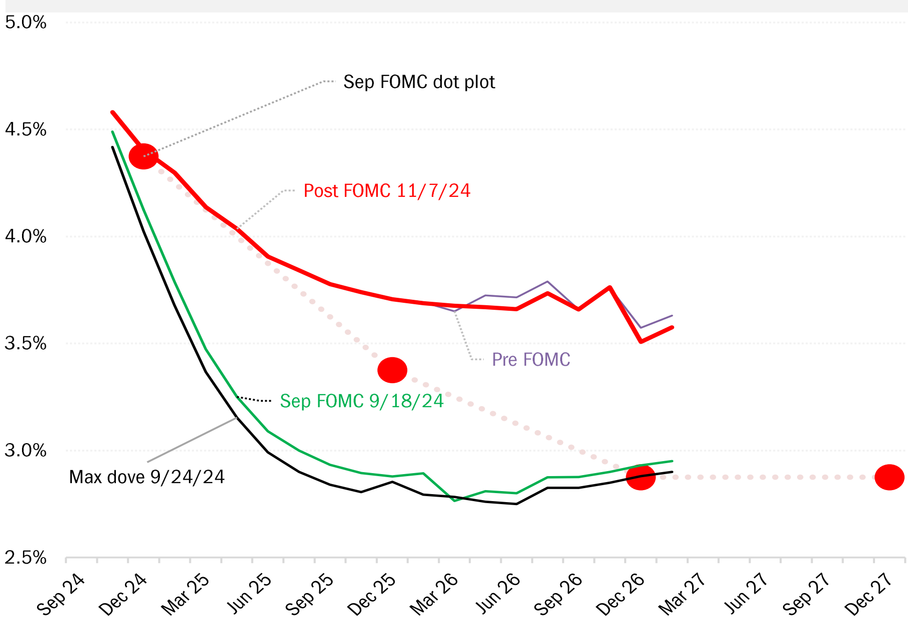
**Not everything is about Trump. The news here is Powell admitting the neutral rate is higher.**

FOMC meetings always happen on Tuesdays and Wednesdays. This one happened on a Wednesday and a Thursday, to give the Fed staff the opportunity to vote on Tuesday. This no doubt explains why 92.4% of the vote in Washington DC went to Kamala Harris. But today, Chair Jerome Powell was at pains to move the policy furniture around as little as possible, and to deflect endless tiresome question in the post-meeting press conference, to avoid any appearance that the Fed even thinks about politics, having already initiated an easing regime into the run-up to the election (see "FOMC Preview: A Political Decision?" July 29, 2024). If the timing of the first rate cut was indeed political, it seems not to have worked – at least if its objective was to elect Harris  (see "Our Hot Take on the Election" November 6, 2024).

The very first thing Powell said in response to the very first question in the presser was:

> POWELL: "We don't guess. We don't speculate, and we don't

Fed funds futures curve (based on effective funds rate)




Source: Bloomberg, FRB, TrendMacro calculations

**Update to strategic view**

**FEDERAL RESERVE, US MACRO:** As expected, a 25 bp rate cut. No dissents, and statement language intended to enshrine recognition of a mandate-consistent economy at maximum employment and with stable prices. In the presser, Powell sharply deflected questions designed to elicit reaction about Trump's possible policies. He flatly stated he would not resign if asked, and that he believed a president lacks the power to fire a Fed chair. In response to many questions, he edged toward admitting that the "dot plots" at the December FOMC are too low, and that the neutral rate is likely higher than previously admitted. That means that the terminal rate of this easing cycle will be higher than previously expected, but more in line with what has been reflected in the fed funds futures markets already for several weeks. That is a welcome development, as it implies a higher-growth environment with a higher neutral rate.

[Strategy dashboard]

> assume. Now, just in principle, it's possible, with any administration's policies or policies put in place by Congress, put down economic effects that over time, over time, that would matter for our pursuit of our dual mandate goals. So that … along with countless other facts…on the economy will be taken into account."

Later he was asked if he would leave the post of Fed Chair if asked to do so by President Trump. One word:

> POWELL: "No."

Follow-up: Does Powell believe the president has the power to fire a Fed chair? One word:

> POWELL: "No."

To a similar question from another reporter who doesn't listen very well: four words:

> POWELL: "Not under the law."

So let's move on from all things Trump, even if the Washington press corps can't.

[Today's FOMC statement](), announcing a 25 bp rate cut, seems to be an exercise in [return to normalcy](), after the declaration of victory in the war on inflation in [September's statement]() (see ["On the September FOMC"]() September 18, 2024).

- The only changes in the statement versus that of the prior meeting were, first, to *drop the inflation victory lap:*

> ~~The Committee has gained greater confidence that inflation is moving sustainably toward 2 percent, and~~The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance.

- And, second, to *de-escalate any sense of emergency about the jobs market:*

> ~~Job gains~~Since earlier in the year, labor market conditions have ~~slowed~~generally eased, and the unemployment rate has moved up but remains low.

- And *this time there was no dissent*. In September, there was one Governor Michelle W. Bowman wanted a 25 bp cut, not 50 bp.

But *in Fed-sensitive financial markets, much has changed since the September meeting*. As recently as September 24, a week after the September FOMC, the Fed funds futures markets were fully expecting a 50 bp cut today, and more than fully expecting another 25 bp at the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December meeting (please see the chart on the previous page). Coming into today's meeting, the 25 bp cut was all that was expected, and another one in December is expected with only a 69% probability.

- What's more, on September 24 markets were expecting a 2-7/8% funds rate by year-end 2025 – while the "dot plot" from the September FOMC's Summary of Economic Projections called for cuts only to 3-3/8% (see "Data Insights: Federal Reserve" September 18, 2024). But weeks later, *coming into today's FOMC, markets have flipped from being more dovish than the Fed to being more hawkish* – calling for a 3-5/8% rate by year-end 2025 (again, please see the chart on the previous page).
- The "dot plot" called for a terminal rate in this easing program of 2-7/8% – which the Fed regards as the neutral rate – by no later than year-end 2026. On September 24 the market expected the same – but the market has since changed its estimate of the terminal rate to 3-1/2%.
- What is the market thinking? Certainly it means that *recession fears have evaporated* (see "On the October Jobs Report: Blockbuster in Disguise?" November 1, 2024). But it likely also means that *the market is taking on board the idea that after a savage hiking cycle in which inflation came back to target – but which didn't cause a recession – that the neutral interest rate is much higher than the Fed's "dot plots" would have us believe they believe*.

Indeed, in the post-meeting press conference, the second question asked about this:

> REPORTER: "…is the September Sep, are those rate projections still valid, that they still seem relevant given where we are now?"
>
> POWELL: "I wouldn't want to comment one way or the other. … let's talk about the data we've gotten since the last meeting. … the September employment report was stronger. The October report, not stronger. Retail sales stronger. So overall, though, I think you take away a sense of some of the downside risk to economic activity now, and having been diminished within the provisions in particular. And so overall, feeling good about economic activity. …at the same time, we got one inflation report, which was, it wasn't terrible, but it was a little higher than expected. So I think really the question is, December, you know, by December, we'll have, we'll have more data…and we will make a decision as we get to December."

The third question was about this, too.

> REPORTER: "…as of the Feds economic projections in September, you have written down four quarter point interest rate cuts in 2025 Do you still think that those are likely? Is that sort of the baseline outlook at this point, or has that shifted?"

> POWELL: “We're gonna wait. We're gonna wait and see how things come in in December. I mean, it's just, I would put it this way, we're on a path to a more neutral stance, and that's very much what we're on. That has not changed at all since September. And you know, we're just going to have to see where the where the data reads.”

We can’t read Powell’s mind, but if there was any conviction about maintaining the Fed’s “dot plots” in the face of more hawkish market expectations, he could have said so – and he didn’t. We take this as ratifying the market’s expectations of a slower easing path, and one that will end sooner – and at higher rates – than the FOMC thought just one meeting ago.

The giveaway was Powell’s answer to a later question [*emphasis added*]:

> REPORTER: “…what might cause you would pause rate cuts in December?”
>
> POWELL: “So we haven't made any decision like that at all, but… where we slow the pace, much like an airplane reaching the airport slows down, and so it, you know, it, we're thinking about it that way. But it's, *it's something that we're just beginning to think about*.”

Hear that? We put up that “dot plot” just six weeks ago, saying the neutral rate is 2-7/8%. Now, well, “it's something that we're just beginning to think about.”

- This is not a negative for growth. Quite the contrary. It is a dawning recognition that the economy is more robust now, after the pandemic depression, than it has been at any time since before the Global Financial Crisis. *A robust economy like that drives a higher neutral rate than the one appropriate to the era of “secular stagnation” after the GFC.*
- *As Powell answered these questions – delicately, to be sure – but nevertheless to the effect that rates will likely not fall as much as expected just weeks ago, markets acted pretty much unconcerned.* Stocks moved a little higher, and bond yields fell – conserving the equity risk premium. *Indeed, why should markets have reacted at all, considering that Powell is only ratifying what has been in the fed fund futures curve for weeks?* That curve hardly changed at all after the FOMC meeting (again, please see the chart on the first page).
- As well they should be. Lower policy rates are not everywhere and always exogenously stimulative. That reverses cause and effect. Indeed, in normal times near maximum employment and with stable prices, growth is endogenous and the neutral rate – and therefore the policy rate – is determined by it.

## Bottom line

As expected, a 25 bp rate cut. No dissents, and statement language intended to enshrine recognition of a mandate-consistent economy at maximum employment and with stable prices. In the presser, Powell sharply deflected questions designed to elicit reaction about Trump's possible policies. He flatly stated he would not resign if asked, and that he believed a president lacks the power to fire a Fed chair. In response to many questions, he edged toward admitting that the "dot plots" at the December FOMC are too low, and that the neutral rate is likely higher than previously admitted. That means that the terminal rate of this easing cycle will be higher than previously expected, but more in line with what has been reflected in the fed funds futures markets already for several weeks. That is a welcome development, as it implies a higher-growth environment with a higher neutral rate.